ANNUAL REPORT 1967

Hershey Foods

Hershey Foods Corporation

Hershey Foods Corporation

BOARD OF DIRECTORS

W. E. Schiller, *Chairman*
W. E. Dearden
J. Hemphill
H. S. Mohler
G. Nurick
R. L. Uhrich
A. R. Whiteman

OFFICERS

H. S. Mohler, *President*
W. E. Schiller, *Chairman of the Board and Treasurer*
W. E. Dearden, *Vice President, Sales and Marketing*
R. L. Uhrich, *Secretary*
L. W. Simmons, *Comptroller*

EXECUTIVE OFFICES

19 East Chocolate Avenue, Hershey, Pa.

TRANSFER AGENT

First National City Bank, *New York*

REGISTRAR

Morgan Guaranty Trust Company, *New York*

AUDITORS

Arthur Andersen & Co., *New York*

Hershey Foods

TO OUR SHAREHOLDERS:

In the year 1967 your Company achieved a new mark in sales, acquired two more companies, introduced several new products and continued its program of modernization of facilities.

Comparative financial data for 1967 and 1966 on a consolidated basis follow:

	1967	1966
Sales	$246,745,196	$225,738,443
Net Earnings	20,934,705	24,973,012
Earnings per Share	$1.75	$2.09
Dividends per Share	$1.10	$1.075

The reduction in earnings for 1967 is the result of an increase in virtually all costs—raw materials, labor, packaging supplies, equipment, distribution, promotion and selling. Cocoa beans, our principal raw material, were substantially higher in price than they had been for several years. Despite this rise in price, the U. S. processors of cocoa beans remain unwavering in their belief that the law of supply and demand best serves the interests of both the growing and the consuming countries. Although several international meetings to negotiate a commodity price agreement for cocoa beans were held during the year, terms and conditions have not been agreed to.

A change in dividend payment policy was announced following the board of directors meeting on February 12, 1968. For some time the Company had been paying a year-end extra in addition to the regular quarterly dividends. It was decided to incorporate the year-end extra, which for several years had been 20 cents per share, into the quarterly dividend, which had been 22½ cents per share since the second quarter of 1966. At its meeting, the board of directors declared a dividend of 27½ cents per share on all outstanding shares, payable on March 15, 1968 to shareholders of record on February 23, 1968.

The Company continued in 1967 the practice of purchasing its common stock on the open market. At December 31, 1967, 301,081 shares were being held as treasury stock. It is contemplated that these shares will be used for future acquisitions.

During the past year the Company inaugurated a program of quarterly reports to shareholders. We trust these reports have been helpful, not only to our shareholders but also to the financial community at large, in better understanding the Company operations. It is planned to continue this periodic reporting.

In 1967 your Company completed negotiations for the acquisition of two companies: David & Frère (1967) Ltée. of Montreal, Canada, and the Cory Corporation of Chicago, Illinois. These additions offer substantial diversification to the Company's growth program.

David & Frère (1967) Ltée., which was acquired on July 7, 1967, manufactures under the *David* brand and some private brands, sweet biscuits, crackers and confectionery, primarily for the Canadian market. Some of its product is exported to the United States. The company also imports some confectionery from England for sale in the Canadian market under the *Old Betty Plant's* label. It is anticipated that David under the leadership of its president, Blake M. Estabrook, has a bright future. Also some efficiencies will be gained by our two Canadian companies—Hershey Chocolate of Canada (1967) Ltd. and David & Frère (1967) Ltée. —working closely together, especially in selling and distribution.

The Cory Corporation, which was founded by Harvey Cory in 1933 in Chicago, Illinois, earned an international reputation for its superior coffee brewing equipment. The company also manufactures and markets air treatment appliances under the brand *Fresh'nd-Aire* and small household electrical appliances under the *Cory* brand. The company's *Nicro* division fabricates stainless steel parts for its line of products in addition to a full line of

stainless steel cookware which is sold under the *Flavor Seal* brand by franchised sales personnel throughout the United States. The Autopoint Company, a division of Cory, manufactures and markets automatic writing instruments and business aids.

The Cory Coffee Service Plan was established in 1965 and operates nationwide through branch warehouses. The service program permits business and industry groups of small to medium size to make available freshly-brewed coffee to their personnel at a low cost.

The Cory Corporation, along with its affiliates in Canada, England, Sweden and Switzerland, will continue under the direction of its able president, James W. Alsdorf.

Your management recognizes the importance of new products to the future growth of the Company. Before a new item can add significantly to profit, it must pass through three stages: development, manufacturing, and marketing. The very close coordination of all three is required to bring a new product along from an idea to the point where it receives meaningful distribution nationwide. Its future is then in the hands of the consumer.

During the past year the Company has introduced its first major product in the enrobed bar field. HERSHEY's *Rally* bar has a fudge and caramel center covered with crisp, roasted peanuts and coated with real milk chocolate. We are pleased to report that this new bar has been received enthusiastically by consumers in all markets where it is presently available. National distribution is planned in the very near future.

Another item which has been successfully test-marketed during the past six months is HERSHEY'S Instant Cocoa Mix in individual servings—ten to a package. This product will be in national distribution as rapidly as manufacturing facilities permit.

To compete effectively in today's market, manufacturing efficiency and adequate capacity are essential. Expenditures for plant and property for 1967 were $6,011,536, including equipment for the new research facilities, modernization and additional capacity of present production facilities, and land purchase and development for the planting of almond orchards in California. Some yield is expected from these almond orchards this year, and a substantial commercial crop by 1970.

At a special meeting of shareholders on January 29, 1968, the recommendation of the board of directors to change the corporate name from Hershey Chocolate Corporation to Hershey Foods Corporation was approved. It is the firm conviction of your management that the new name will better reflect to the financial community and to the general public the broader product line resulting from the Company's program of development and diversification. This change will in no way lessen the traditional association of *Hershey* with chocolate and cocoa products. In connection with the change of the corporate name, a program is being initiated to strengthen the brand image of the *Hershey* bar and other *Hershey* chocolate and cocoa products. We look forward to the day when the *Hershey* endorsement will be as important to a broad line of food products as it has been to chocolate and cocoa products for more than a half century.

It is the rare exception when we sell any of our products directly to the consumer. Virtually all of our branded merchandise is sold to the thousands of wholesalers and retailers throughout the United States and Canada. Recognizing the importance of these independent and competitive groups to "the growing world of HERSHEY," the Company has initiated a program which should result in more effective marketing of our products.

We have intentionally reserved for the closing paragraph of this letter comment on the Company's greatest resource—its employees. The officers and directors join in expressing appreciation to the more than 7,000 employees throughout the United States and Canada for their loyalty and keen interest in working toward the Company's objectives.

W. E. Schiller — Chairman of the Board

H. S. Mohler — President

February 19, 1968

Hershey Chocolate Corporation
has become
Hershey Foods Corporation.
This mark will
denote quality on a large and
growing number of
fine food products.

Hershey Foods

HERSHEY CHOCOLATE AND CONFECTIONERY DIVISION

From a small beginning 65 years ago to one of the world's largest manufacturers of chocolate, cocoa, and confectionery products for consumer and industrial users. A new chocolate-covered peanut and fudge bar called *Rally,* is now in test markets and is expected to be in nationwide distribution shortly. Other products are constantly being developed for future introduction to sustain the ever-increasing market for Hershey products. The new fully integrated manufacturing plant in Oakdale, California, which came on-stream in 1965, substantially enhanced the company's production facilities.

H. B. REESE CANDY CO., INC.

Originators of the peanut butter cup and leading producer in this specialty market. Milk chocolate peanut butter cups . . . Butterscotch peanut butter cups and peanut butter eggs.

DAVID & FRÈRE (1967) LTÉE.

One of Canada's largest manufacturers of sweet biscuits and crackers established over 100 years. Also a marketer of candies and importer of British manufactured candies under the label of *Old Betty Plant's*.

HERSHEY CHOCOLATE OF CANADA (1967) LTD.

Through advertising and an aggressive marketing and sales program, the Company continues to increase its share of the Canadian market for Hershey's chocolate and confectionery items. New products for the future are being developed constantly for this market.

SAN GIORGIO MACARONI, INC.

A complete line of pasta products, macaroni, spaghetti, egg noodles, and spaghetti sauces are manufactured in Lebanon, Pennsylvania, and marketed along the eastern seaboard.

DELMONICO FOODS, INC.

Located in Louisville, Kentucky, Delmonico manufactures a variety of pasta products and spaghetti sauces, which are marketed primarily in Indiana, Kentucky, and Ohio.

CORY CORPORATION

A recently acquired Hershey Foods subsidiary, Cory is a Chicago based manufacturer of coffee brewing and food service equipment, as well as household appliances. Cory products are marketed for home and institutional use. A subsidiary, Cory Coffee Service Plan, Inc., offers an employee coffee-break program for offices, business establishments, and industry. The company, through various divisions and subsidiaries, also manufactures and markets Autopoint quality writing instruments, air treatment appliances under the *Fresh'nd-Aire* brand, *Flavor Seal* stainless steel cookware and *Nu Trend* giftwares.

L. D. PROPERTIES CORPORATION

Approximately 5,000 acres in California are being developed into almond orchards. As the world's largest user of almonds, this venture will assure a more adequate supply of the types of almonds Hershey requires to meet its exacting standards.

CONSOLIDATED

ASSETS

	December 31 1967	1966
CURRENT ASSETS:		
Cash	$ 11,878,045	$ 7,232,758
Marketable securities, at cost	3,492,208	12,540,252
Accounts receivable, less reserves	16,531,666	10,424,897
Inventories (Note 1)	78,202,457	75,960,503
Total current assets	110,104,376	106,158,410
PLANT AND PROPERTY, at cost:		
Land	3,497,711	2,437,744
Buildings	37,657,228	32,718,322
Equipment	75,318,846	60,870,038
	116,473,785	96,026,104
Less—Reserves for depreciation	47,994,109	37,356,364
Net plant and property	68,479,676	58,669,740
COST OF INVESTMENTS IN SUBSIDIARIES IN EXCESS OF BOOK VALUES AT DATES OF ACQUISITION	21,980,667	4,136,394
DEFERRED CHARGES, ETC.	5,686,268	1,576,899
	$206,250,987	$170,541,443

The accompanying notes are

BALANCE SHEET

LIABILITIES

	December 31 1967	December 31 1966
CURRENT LIABILITIES:		
Loans payable within one year (Note 3)	$ 10,932,059	$ 2,106,622
Accounts payable	6,992,386	5,148,962
Accrued liabilities	5,349,978	3,379,573
Reserve for Federal and state income taxes	7,495,732	11,076,968
Total current liabilities	30,770,155	21,712,125
LONG TERM LOANS (Note 3)	27,691,885	9,663,952
RESERVE FOR DEFERRED INCOME TAXES	7,141,648	5,049,000
STOCKHOLDERS' EQUITY:		
Common stock, without par value— Authorized 15,000,000 shares; issued—12,225,160 and 12,225,100 shares, respectively	9,031,856	9,030,848
Retained earnings	140,935,639	133,134,109
	149,967,495	142,164,957
Less: Treasury stock, at cost— 301,081 and 253,983 shares, respectively	9,320,196	8,048,591
Total stockholders' equity	140,647,299	134,116,366
	$206,250,987	$170,541,443

tegral part of this balance sheet.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	For the Years Ended December 31	
	1967	1966
NET SALES	$246,745,196	$225,738,443
COSTS AND EXPENSES:		
Cost of goods sold	164,127,189	141,258,171
Selling, administrative and general	20,475,403	16,803,831
Shipping	14,214,814	13,083,993
Depreciation	3,460,848	2,789,470
Total costs and expenses	202,278,254	173,935,465
Income from operations	44,466,942	51,802,978
OTHER EXPENSE (INCOME):		
Interest	1,330,442	635,493
Other	(213,205)	(174,527)
Income before income taxes	43,349,705	51,342,012
PROVISION FOR FEDERAL AND STATE INCOME TAXES	22,415,000	26,369,000
Net income	20,934,705	24,973,012
RETAINED EARNINGS AT JANUARY 1	133,134,109	121,100,748
	154,068,814	146,073,760
DEDUCT—Dividends, $1.10 and $1.075 a share, respectively	13,133,175	12,939,651
RETAINED EARNINGS AT DECEMBER 31	$140,935,639	$133,134,109

The accompanying notes are an integral part of this statement.

CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF FUNDS

		Year 1967
SOURCE:		
Net income for the year		$20,934,705
Income charges not requiring the disbursement of cash:		
Depreciation	$3,460,848	
Deferred income taxes	505,238	3,966,086
Funds provided from operations		24,900,791
Increase in long term debt		16,547,933
		41,448,724
DISPOSITION:		
Dividends paid		13,133,175
Treasury stock acquired		1,271,605
Additions to plant and property		6,011,536
Net non-current assets of subsidiaries acquired, at dates of acquisition (principally plant and property)		7,420,369
Cost of investments in subsidiaries in excess of book values at dates of acquisition		17,844,273
Other (Net)		879,830
		46,560,788
Decrease in working capital		$ 5,112,064

NOTES

1 Inventories of cocoa beans, almonds, peanuts and milk, together with such material and wage costs included in finished goods and goods in process are substantially all stated at cost, under the "last-in, first-out" method. The remaining inventories are stated at lower of cost or market under the "first-in, first-out" or "average cost" method.

2 The Company and certain of its subsidiaries have an Insured Retirement Annuity Plan which covers substantially all of the employees of such companies. The Company's policy is to provide for current service costs as incurred. The total cost charged against income for the year was $575,000. All prior service costs have been funded or accrued by the Company.

3 Long term loans at December 31, 1967 consist of the following:

6% loan, payable in equal quarterly installments, commencing March 30, 1970 and ending December 31, 1973	$17,000,000
4½% loan, payable in equal quarterly installments of $357,143 to 1973	6,427,143
Various other loans at 5% to 6¾%, payable to 1986	4,264,742
	$27,691,885

The 6% loan was made in January, 1968, under the terms of a revolving credit agreement which allows the Company to borrow up to $25,000,000 to November 22, 1969. The proceeds were used as a part of the satisfaction of short term notes issued in connection with the acquisition of Cory Corporation. Borrowings under this loan may be prepaid without penalty and the outstanding balance at November 22, 1969 may be converted into a term loan with payments due as indicated above. At present it is the Company's intention to convert the balance borrowed into a term loan. In addition, the loan agreement contains certain restrictions as to the ratio of debt, as defined, to current assets and stockholders' equity.

4 Certain 1966 items have been reclassified to make them comparable with 1967.

AUDITORS' REPORT

To the Board of Directors and Stockholders of
Hershey Foods Corporation:

We have examined the consolidated balance sheet of Hershey Foods Corporation (a Delaware corporation, formerly Hershey Chocolate Corporation) and subsidiaries as of December 31, 1967, and the related statements of consolidated income and retained earnings and source and disposition of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and retained earnings and source and disposition of funds present fairly the financial position of Hershey Foods Corporation and subsidiaries as of December 31, 1967, and the results of their operations and the source and disposition of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

New York, N.Y.,
February 9, 1968.

TEN YEAR SUMMARY
SALES, INCOME AND DIVIDENDS

Year	Net Sales	Net Income Total	Net Income Per Common Share (2)	Dividends Per Common Share (2)
1967	$246,745,196	$20,934,705	$1.75	$1.10
1966	225,738,443	24,973,012	2.09	1.075
1965	211,780,687	24,722,000	2.02	1.00
1964	207,129,308	22,745,755	1.86	.925
1963	203,021,904	22,233,913	1.82	.90
1962	191,332,314	22,696,704	1.86	.90
1961	185,239,352	20,513,768	1.70	.80
1960	176,546,033	19,003,641	1.58	.74
1959	172,673,463	15,590,411	1.30	.68
1958	169,398,145	12,999,836	1.07	.63

NOTES

(1) Figures for H. B. Reese Candy Company, acquired on a pooling of interest basis in 1963, have been included in all years.

(2) Figures for the net income per share and dividends per share have been adjusted to give retroactive effect to the five-for-one stock split made on March 27, 1962.

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